NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

PROVISIONS

Provisions are made when there are legal or constructive obligations as a result of past events and when it is probable that an outflow of resources will be required to settle the obligations and the amounts can be reliably estimated. However, the actual outflow as a result of an obligation may differ from such estimate.

In the ordinary course of business, the Company is subject to proceedings, lawsuits and other unresolved claims, including proceedings under laws and government regulations and other matters. These matters are often resolved over a long period of time. The Company regularly assesses the likelihood of any adverse judgments in or outcomes of these matters, as well as potential ranges of possible losses. Provisions are recognized when it is probable that a liability has been incurred and the amount can be reasonably estimated based on a detailed analysis of each individual issue.

The provisions mainly relate to product warranty commitments, customer contract loss provisions, restructuring and other obligations, such as unresolved income tax and value added tax issues, claims or obligations as a result of patent infringement and other litigations, supplier claims and customer financing guarantees.

Product warranty commitments consider probabilities of all material quality issues based on historical performance for established products and expected performance for new products, estimates of repair cost per unit, and volumes sold still under warranty up to reporting date.

For losses on customer contracts, provisions equal to the total estimated loss are recorded when a loss from a contract is anticipated and possible to estimate reliably. These contract estimates include any probable penalties to a customer under a loss contract.

A restructuring obligation has arisen when the Company has a detailed formal plan for the restructuring (approved by management), communicated in such a way that a valid expectation has been raised among those affected.

The Company provides for estimated future settlements related to patent infringements based on the probable outcome of each infringement. The ultimate outcome or actual cost of settling an individual infringement may vary from the Company's estimate. The Company estimates the outcome of any potential patent infringement made known to the Company through assertion and through the Company's own monitoring of patent–related cases in the relevant legal systems. To the extent that the Company makes the judgment that an identified potential infringement will more likely than not result in an outflow of resources, the Company records a provision based on the Company's best estimate of the expenditure required to settle infringement proceedings.

At various intervals, the Company gives some of its suppliers and/ or subcontractors forecasts of expected purchases and also sometimes commits to minimum purchase levels during a certain period. The agreements often include compensation clauses for the event that material deviations from original plans regarding production volumes or product mix should occur. As a result of actual deviations from committed purchase levels or of received actual claims from these suppliers and/or subcontractors, the Company makes provisions for estimated compensation. Additionally, provisions are made for estimated charges as a result of known changes in design specifications that are provided to production subcontractors. Amounts for provisions and subsequent net amounts at settlements are charged to the corresponding item in the income statement, i.e. costs related to component suppliers, production subcontractors and installation subcontractors are included in Cost of sales. Costs regarding development subcontractors are included in Research & Development, and costs related to

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

IT–providers and other services are included in Operating expenses or Cost of sales, depending on the nature of the service. Such provisions are monitored closely on a regular basis, with any additions/reversals charged or credited to the same account as the initial provision.

POST–EMPLOYMENT BENEFITS

Pensions and other post–employment benefits are classified as either defined contribution plans or defined benefit plans. Under a defined contribution plan, the Company's only obligation is to pay a fixed amount to a separate entity (a pension trust fund) with no obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits. The related actuarial and investment risks fall on the employee. The expenditures for defined contribution plans are recognized as costs during the period when the employee provides service. Under a defined benefit plan, it is the Company's obligation to provide agreed benefits to current and former employees. The related actuarial and investment risks fall on the Company.

The present value of the defined benefit obligations for current and former employees is calculated using the Projected Unit Credit Method. The discount rate for each country is determined by reference to market yields on high–quality corporate bonds that have maturity dates approximating the terms of the Company's obligations. In countries where there is no deep market in such bonds, the market yields on government bonds are used. The calculations are based upon actuarial assumptions, assessed on a quarterly basis, and are as a minimum prepared annually. Actuarial assumptions are the Company's best estimate of the variables that determine the cost of providing the benefits. When using actuarial assumptions, it is possible that the actual result will differ from the estimated result or that the actuarial assumptions will change from one period to another. These differences are reported as actuarial gains and losses. They are for example caused by unexpectedly high or low rates of employee turnover, changed life expectancy, salary changes, changes in the discount rate and differences between actual and expected return on plan assets. Actuarial gains and losses are recognized in equity in the period in which they occur. The Company's net liability for each defined benefit plan consists of the present value of pension commitments less the fair value of plan assets and is recognized net on the balance sheet. When the result is a net benefit to the Company, the recognized asset is limited to the total of any cumulative past service cost and the present value of any future refunds from the plan or reductions in future contribution to the plan.

The net of return on plan assets and interest on pension liabilities is reported as financial income or expense, while the current service cost and any other items in the annual pension cost are reported as operating income or expense.

Pension cost calculated according to IAS 19 differs from pension cost calculated according to Swedish GAAP. Payroll tax related to actuarial gains and losses are reported in equity together with the recognition of actuarial gains and losses.

SHARE–BASED EMPLOYEE COMPENSATION

Share–based compensation only relates to remuneration to employees, including key management personnel. Under IFRS, a company shall recognize compensation costs for share–based compensation programs to employees, being a measure of the value to the company of services received from the employees under the plans.

Stock option plans

In accordance with IFRS 1 and IFRS 2, Ericsson has chosen not to apply IFRS 2 to equity instruments granted before November 7, 2002.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

IFRS 2 was applied for one equity settled employee option program granted after November 7, 2002. The vesting period for this program ended during 2005, and Ericsson recognized compensation costs representing the fair value at grant date of the outstanding employee options. In the balance sheet, the corresponding amounts are accounted for as equity. The fair value of the options was calculated using an option–pricing model. The total costs were recognized during the vesting period (3 years), i.e. the period during which the employees had to fulfill vesting requirements. When the options are exercised, social security charges are to be paid in certain countries on the value of the employee benefit; generally based on the difference between the market price of the share and the strike price. Such social security charges are accrued during the vesting period.

Stock purchase plans

For stock purchase plans, compensation costs are recognized during the vesting period, based on the fair value of the Ericsson share at the employee's investment date. The fair value is based upon the share price at investment date, adjusted for that no dividends will be received on matching shares prior to matching. The employees pay a price equal to the share price at investment date for the investment shares. The investment date is considered as the grant date. In the balance sheet, the corresponding amounts are accounted for as equity. Vesting conditions are non–market based and affect the number of shares that Ericsson will match. For shares under performance–based matching programs, the Company assesses the probability of meeting the performance targets when calculating the compensation costs. Compensation expenses are based on estimates of the number of shares that will match at the end of the vesting period. When shares are matched, social security charges are to be paid in certain countries on the value of the employee benefit. The employee benefit is generally based on the market value of the shares at the matching date. During the vesting period, estimated such social security charges are accrued.

SEGMENT REPORTING

Financial information is provided to the Board of Directors for both primary and secondary segments. These segments are subject to risks and returns that are different from those of other segments.

Primary segments

A primary segment is a business segment consisting of a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of the other business segments. Mainly the following factors have been considered when identifying the differences:

- Commonality in products and services regarding technology, research and development.
- For which market and to what type of customers the segment's products and/or services are aimed
- Through what distribution channels they are sold

Secondary segments

Secondary, geographical segments are defined based on similarities in economic and market conditions, risks and returns for particular geographical environments.

BORROWING COSTS

The Company does not capitalize any borrowing costs. Such costs are expensed as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NON–CURRENT ASSETS HELD FOR SALE

To be classified as an asset held for sale, the asset must be available for immediate sale in its present condition and its sale must be highly probable, requiring that the appropriate level of management has authorized the plan to sell and that there is an active plan to complete the sale.

Non–current assets held for sale are measured at the lower of carrying amount and fair value less cost to sell.

GOVERNMENT GRANTS

Government grants are recognized when there is a reasonable assurance of compliance with conditions attached to the grants and that the grants will be received.

For Ericsson, government grants are linked to performance of research or development work or to subsidized capital expenditures as governmental stimulus to employment or investments in a certain country or region. Government grants linked to research and development are normally deducted in reporting the related expense, whereas grants related to assets are accounted for deducting the grant in arriving at the acquisition cost of the asset.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2007, and have not been applied in preparing these consolidated financial statements:

- IFRS 8 Operating Segments. This standard prescribes measurement and presentation of segments and replaces IAS 14 Segment reporting. The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting to the Board of Directors An entity shall apply this IFRS in its annual financial statements for periods beginning on or after January 1, 2009. The Company plans to apply this new standard as from January 1, 2009.

- IAS 1 Presentation of Financial Statements has been revised and the revised standard shall be applied for financial periods beginning on or after January 1, 2009. The amendment to the standard is still subject to endorsement by the European Union. The changes apply particularly to the presentation and names of the financial statements and the presentation of owner changes in equity and of comprehensive income. Thus, the standard requires a company to present, in a statement of changes in equity, all owner changes in equity. All non–owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income. The Company plans to apply this revised standard as from January 1, 2009.

- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that a company capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Company's 2009 financial statements and will constitute a change in accounting policy for the Group. The amendment to the standard is still subject to endorsement by the European union. In accordance with the transitional provisions, the Group will apply the revised IAS 23 to qualifying assets from the effective date. The revised standard is not expected to have a significant impact on the financial statements of the Company. The Company plans to apply this revised standard as from January 1, 2009.

- IAS 27 (Amendment) Consolidated and Separate Financial Statements (effective from July 1, 2009). The amendment to the standard is still subject to endorsement by the European Union. The change implies, among other things, that minority interest shall always be recognized even if the minority interest is

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

negative, transactions with minority interests shall always be recorded in equity, and, in those cases when a partial disposal of a subsidiary results in that the entity loses control of the subsidiary, any remaining interest should be revaluated to fair value. The change in the standard will influence the accounting of future transactions.

- IFRS 2 Share–Based Payment (Amendment) Vesting conditions and cancellations (effective from January 1, 2009). The amendment to the standard is still subject to endorsement by the European Union. The amendment affects the definition of vesting conditions and introduces a new concept of non–vesting conditions. The standard states that non–vesting conditions should be taken into account in the estimate of the fair value of the equity instrument. Goods or services that are received by a counterparty that satisfies all other vesting conditions shall be accounted for irrespective of whether the non–vesting conditions are satisfied. A liability included in a share–based arrangement shall be remeasured based on fair value at the date of cancellation or settlement. The amendment is not expected to have a significant impact on the financial statements of the Group. The Company plans to apply this new standard as from January 1, 2009.

- IFRS 3 (Amendment) Business combinations (effective from July 1, 2009). The amendment to the standard is still subject to endorsement by the European Union. The amendment will have an effect on how future business combinations are accounted for, i.e. the accounting of transaction costs, possible contingent considerations, and business combinations achieved in stages. At present, the Company plans to apply the standard from January 1, 2010.

- IFRIC 11 IFRS 2—Group and Treasury Share Transactions requires a share–based payment arrangement in which a company receives goods or services as consideration for its own equity instruments to be accounted for as an equity–settled share–based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Company's 2008 financial statements, with retrospective application required. It is not expected to have any significant impact on the consolidated financial statements.

- IFRIC 12 Service Concession Arrangements provides guidance on certain recognition and measurement issues that arise in accounting for public–to–private service concession arrangements. This interpretation is still subject to endorsement by the European Union. IFRIC 12, which becomes mandatory for the Company's 2008 financial statements, is not expected to have any significant effect on the consolidated financial statements.

- IFRIC 13 Customer Loyalty Programmes addresses the accounting by companies that operate, or otherwise participate in, customer loyalty programmes for their customers. This interpretation is still subject to endorsement by the European Union. IFRIC 13 relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Company's 2009 financial statements, is not expected to have any significant impact on the consolidated financial statements.

- IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. This interpretation is still subject to endorsement by the European Union. IFRIC 14 also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Company's 2008 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

C2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements and application of accounting standards often involve management's judgment or the use of estimates and assumptions deemed to be reasonable at the time they are made. However, other results may be derived with different judgments or using different assumptions or estimates, and events may occur that could require a material adjustment to the carrying amount of the asset or liability affected. Following are the accounting policies subject to such judgments, estimates or assumptions that the Company believes could have the most significant impact on the reported results and financial position.

REVENUE RECOGNITION

Parts of the Company's sales are generated from large and complex customer contracts. Managerial judgment is applied regarding, among other aspects, degree of completion and conformance with acceptance criteria and if transfer of risks and returns to the buyer has taken place to determine if revenue and cost should be recognized in the current period, and the customer credit standing to assess whether payment is likely or not to justify revenue recognition. Estimates are necessary e.g. in evaluation of contractual performance and estimated total contract costs for assessing whether any loss provisions are to be made or if customers will reach conditional purchase volumes triggering contractual discounts to be given.

TRADE AND CUSTOMER FINANCING RECEIVABLES

The Company monitors the financial stability of its customers and the environment in which they operate to make judgments regarding the likelihood that the individual receivables will be paid. Total allowances for estimated losses as of December 31, 2007, were SEK 1.4 (1.4) billion or 2.2 (2.7) percent of our gross trade receivables. Credit risk for outstanding customer financing credits is regularly assessed and based on these judgments allowances are recorded for estimated losses.

INVENTORY VALUATION

Inventories are valued at the lower of cost or net realizable value. Estimates are required in relation to forecasted sales volumes and inventory balances. In situations where excess inventory balances are judged to exist, estimates of net realizable values for the excess volumes are made. Inventory allowances for estimated losses as of December 31, 2007, amounted to SEK 2.8 (2.6) billion or 12 (12) percent of gross inventory.

DEFERRED TAXES

Deferred tax assets are recognized for temporary differences between the carrying amounts for reporting purposes of assets and liabilities and the amounts used for taxation purposes and for unutilized tax loss carryforwards. The largest amounts of tax loss carryforwards are in Sweden, with an indefinite period of utilization (i.e. with no expiry date). The valuation of tax loss carryforwards, deferred tax assets and the Company's ability to utilize tax losses is based upon management's estimates of future taxable income in different tax jurisdictions and involves management's judgment regarding the deductibility of costs not yet subject to taxation. In note C8 Income Taxes, more information is provided.

At December 31, 2007, the value of deferred tax assets amounted to SEK 11.7 (13.6) billion. The deferred tax assets related to loss carryforwards are reported as non–current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ACCOUNTING FOR INCOME−, VALUE ADDED− AND OTHER TAXES

Accounting for these items is based upon evaluation of income−, value added− and other tax rules in all jurisdictions where we perform activities. The total complexity of rules related to taxes and the accounting for these require management's involvement in judgments regarding classification of transactions and in estimates of probable outcomes of claimed deductions and/or disputes.

CAPITALIZED DEVELOPMENT EXPENSES

Development costs that meet IFRS' intangible asset recognition criteria for products that will be sold, leased or otherwise marketed as well as those intended for internal use are capitalized. The starting point for capitalization is based upon management's judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. Capitalization ceases and amortization of capitalized development costs begins when the product is available for general release. Impairment testing is performed after initial recognition whenever there is an indication of impairment. Intangible assets not yet available for use are tested annually. The definition of amortization periods as well as the evaluation of impairment indicators require management's judgment. The impairment amounts are based on estimates of future cash flows for the respective products.

At December 31, 2007, the amount of capitalized development expenses amounted to SEK 3.7 (5.0) billion.

ACQUIRED INTELLECTUAL PROPERTY RIGHTS AND OTHER INTANGIBLE ASSETS, INCLUDING GOODWILL

At initial recognition, future cash flows are calculated, ensuring that the initial carrying values do not exceed the discounted cash flows for the items of this type of assets. Impairment testing is performed after initial recognition whenever there is an indication of impairment, except for goodwill for which impairment testing is performed at least once per year. At initial recognition and subsequent measurement, management judgments are made, both for assumptions and regarding impairment indicators. Negative deviations in actual cash flows compared to estimated cash flows as well as new estimates that indicate lower future cash flows might result in recognition of impairment charges. For further discussion on goodwill, see Note C10 intangible assets. Estimates related to acquired intangible assets are based on similar assumptions and risks in assumptions as for goodwill.

At December 31, 2007, the amount of acquired intellectual property rights and other intangible assets amounted to SEK 46.8 (22.5) billion, including goodwill of SEK 22.8 (6.8) billion.

PROVISIONS

Pension and other post−employment benefits

Accounting for the costs of defined benefit pension plans and other applicable post−employment benefits is based on actuarial valuations, relying on key estimates for discount rates, expected return on plan assets, future salary increases, turnover rates and mortality tables. The discount rate assumptions are based on rates for high−quality fixed−income investments with durations similar to the Company's pension plans. Expected returns on plan assets consider long−term historical returns, allocation of assets and estimates of future long−term investment returns. At December 31, 2007, provisions for pensions and other post−employment benefits amounted to net SEK 4.9 (6.1) billion. For a sensitivity analysis and more information of estimates and assumptions, see note C17 Post−Employment Benefits.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Warranty commitments

Provisions for product warranties are based on current volumes of products sold still under warranty and on historic quality rates for mature products as well as judgments and assumptions on future quality rates for new products and estimates of costs to remedy the various qualitative issues that might occur. Total provisions for product warranties as of December 31, 2007, amounted to SEK 1.8 (3.0) billion.

Provisions other than warranty commitments

Other provisions mainly comprise amounts related to contractual obligations and penalties to customers and estimated losses on customer contracts, risks associated with patent and other litigations, supplier or subcontractor claims and/or disputes, as well as provisions for income tax and value added tax unresolved issues. The nature and type of risks for these provisions differ and management's judgment is applied regarding the nature and extent of obligations. The estimates related to the amounts of provisions for penalties, claims or losses receive special attention from the management. At December 31, 2007, Provisions other than warranty commitments amounted to SEK 7.9 (10.9) billion. In note C18 Provisions, more information is provided.

RISKS IN FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Hedge accounting and foreign exchange risks

Foreign exchange risk in highly probable sales in future periods are hedged using foreign exchange derivative instruments designated as cash–flow hedges.

Establishing highly probable sales volumes involves gathering and evaluating sales estimates for future periods as well as analyzing actual outcome on a regular basis in order to fulfill effectiveness testing requirements for hedge accounting. Deviations in outcome of sales might result in that, according to management's judgment, the requirements for hedge accounting are not fulfilled.

For further information regarding risks in financial instruments and related judgment and estimates, please see C14 Trade receivables and C20 Financial Risk Management and Financial Instruments.

Other areas that require certain judgments

Other areas that require judgment by management are:

- whether or not consolidation shall be made of entities where the Company does not have formal voting rights exceeding 50 percent, but where the Company might have control due to other circumstances,
- whether to classify a counterpart as a related party or not for disclosure purposes, and
- classification of leasing contracts as operating or financing leases, both when the Company is a lessee and when it is a lessor.

C3 SEGMENT INFORMATION

When determining the business segments, the Company has looked at which market and to what type of customers the Company's products are aimed, and through what distribution channels they are sold, as well as to commonality regarding technology, research and development.

Ericsson har reorganized its operating structure as from January 1, 2007. For further details see note C1 Significant Accounting Policies.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

BUSINESS SEGMENTS (PRIMARY)

2006	Networks	Professional Services	Multimedia	Phones	Unallocated	Eliminations	Group
Net sales	127,518	36,813	13,877	—	1,613	—	179,821
Inter–segment sales	176	34	17	—	2	–229	0
Total net sales	**127,694**	**36,847**	**13,894**	**—**	**1,615**	**–229**	**179,821**
Share in earnings of JV and associated companies	18	21	43	5,852	—	—	5,934
Operating income	21,722	5,309	714	5,852	2 231[5]	—	35,828
Operating margin (%)	17%	14%	5%	—	—	—	20%
Financial income							1,954
Financial expenses							–1,789
Income after financial items							**35,993**
Taxes							–9,557
Netincome							**26,436**
Assets[1)2)]	100,792	21,141	6,657	—	76,941	—	205,531
Equity in joint ventures and associated companies	918	170	280	8,041	—	—	9,409
Total assets	**101,710**	**21,311**	**6,937**	**8,041**	**76,941**	**—**	**214,940**
Liabilities[3)4)]	**42,837**	**17,718**	**4,011**	**—**	**29,479**	**—**	**94,045**

1) Segment assets include property, plant and equipment, intangible assets, current and non–current customer financing, accounts receivable, inventory, prepaid expenses, accrued revenues, derivatives and other current assets.
2) Unallocated assets include mainly cash and cash equivalents, short–term investments and deferred tax assets.
3) Segment liabilities include accounts payable, provisions, accrued expenses and deferred revenues, advances from customers and other current liabilities.
4) Unallocated liabilities include accrued interests, tax liabilities, interest–bearing liabilities and post–employment benefits.
5) Unallocated operating income include the effect of the divesture of the Defense business by SEK 2,963 million.

Other segment items

2006	Networks	Professional Services	Multimedia	Phones	Unallocated	Eliminations	Group
Property, plant and equipment and intangible assets							
Additions to property, plant and equipment	3,462	291	74	—	—	—	3,827
Acquisitions/capitalization of intangible assets	16,403	1,512	404	—	—	—	18,319
Depreciation	–2,689	–271	–47	—	—	—	–3,007
Amortization	–4,015	–116	–68	—	–38	—	–4,237
Impairment losses	–303	—	—	—	—	—	–303
Reversals of impairment losses	31	—	—	—	—	—	31
Restructuring expenses	–2,400	–402	–106	—	—	—	–2,908
Gains/losses from divestments	—	—	—	—	2,945	—	2,945

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

GEOGRAPHICAL SEGMENTS (SECONDARY)

2006	Net sales[1)]	Total assets	Additions/ capitalization of PP&E and intangible assets
Western Europe	53,182	158,773	20,704
—of which Sweden	*7,809*	*125,578*	*17,819*
Central and Eastern Europe, Middle East and Africa	46,413	8,139	147
Asia Pacific	47,884	24,853	419
—of which China	*11,776*	*9,088*	*206*
North America	15,862	10,893	798
—of which United States	*13,878*	*10,231*	*739*
Latin America	16,480	12,282	78
Total	**179,821**	**214,940**	**22,146**
—of which EU[2)]	*58,983*	*160,074*	*20,763*

1) Revenues for intellectual property rights (IPR) related to products are included in Net sales instead of Other operating income.
2) Restated for Bulgaria and Romania which entered into the European Union as from 2007.

For employee information, see note C29, "Information Regarding Employees, Members of the Board of Directors and Management".

BUSINESS SEGMENTS (PRIMARY)

2005	Networks	Professional services	Multimedia	Phones	Unallocated	Eliminations	Group
Net sales	114,134	26,324	10,496	—	2,268	—	153,222
Inter–segment sales	750	178	5	—	155	−1,088	0
Total net sales	**114,884**	**26,502**	**10,501**	**—**	**2,423[5)]**	**−1,088**	**153,222**
Share in earnings of JV and associated companies	92	57	−11	2,257	—	—	2,395
Operating income	**26,583**	**4,355**	**229**	**2,257**	**−340**	**—**	**33,084**
Operating margin (%)	23%	16%	2%	—	—	—	22%
Financial income							2,653
Financial expenses							−2,402
Income after financial items							**33,335**
Taxes							−8,875
Net income							**24,460**
Assets[1)2)]	79,703	12,905	3,891	—	106,524	—	203,023
Equity in joint ventures and associated companies	879	140	256	5,038	—	—	6,313
Total assets	**80,582**	**13,045**	**4,147**	**5,038**	**106,524**	**—**	**209,336**
Liabilities[3)4)]	**58,938**	**6,938**	**1,255**	**—**	**39,733**	**—**	**106,864**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

1) Segment assets include property, plant and equipment, intangible assets, current and non–current customer financing, accounts receivable, inventory, prepaid expenses, accrued revenues, derivatives and other current assets.
2) Unallocated assets include mainly cash and cash equivalents, short–term investments and deferred tax assets.
3) Segment liabilities include accounts payable, provisions, accrued expenses and deferred revenues, advances from customers and other current liabilities.
4) Unallocated liabilities include accrued interests, tax liabilities, interest–bearing liabilities and post–employment benefits.
5) Net sales includes Defense business.

Other segment items

2005	Networks	Professional services	Multimedia	Phones	Unallocated	Eliminations	Group
Property, plant and equipment and intangible assets							
Additions to property, plant and equipment	2,769	491	105	—	—	—	3,365
Acquisitions/capitalization of intangible assets	2,250	—	—	—	—	—	2,250
Depreciation	−2,468	−258	−77	—	−1	—	−2,804
Amortization	−3,282	−63	−8	—	84	—	−3,269
Impairment losses	−109	—	—	—	—	—	−109
Reversals of impairment losses	380	—	—	—	—	—	380
Gains/losses from divestments	—	—	—	—	56	—	56

GEOGRAPHICAL SEGMENTS (SECONDARY)

2005	Net sales[1]	Total assets	Additions/ capitalization of PP&E and intangible assets
Western Europe	42,554	154,159	4,576
—of which Sweden	*6,724*	*133,448*	*3,502*
Central and Eastern Europe, Middle East and Africa[1]	39,948	7,891	113
Asia Pacific	32,212	20,290	285
—of which China	*11,544*	*8,964*	*123*
North America	19,432	13,754	552
—of which United States	*17,904*	*12,988*	*453*
Latin America	19,076	13,242	89
Total	**153,222**	**209,336**	**5,615**
—of which EU[2]	*47,342*	*154,075*	*4,639*

1) Revenues for intellectual property rights (IPR) related to products are included in Net sales instead of Other operating income.
2) Restated for Bulgaria and Romania which entered into the European Union as from 2007.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For employee information, see note C29, "Information Regarding Employees, Members of the Board of Directors and Management".

C4 NET SALES

An increased part of Ericsson's products and services are sold as parts of delivery type contracts including multiple elements. The nature of the products and services being sold, and the contractual terms taken as a whole, determine the appropriate revenue recognition method. The contracts are of four main types:

	2007	2006	2005
Sales of equipment and network rollout	**138,011**	137,758	123,010
Of which:			
—Delivery–type contracts	**130,890**	123,206	104,998
—Construction–type contracts	**7,121**	14,552	18,012
Professional Services sales[1)]	**42,892**	36,813	26,324
Licenses[2)]	**6,877**	5,250	3,888
Net sales	**187,780**	179,821	153,222
Export sales from Sweden	**102,486**	98,694	93,879

1) 2006 and 2005 are restated to reflect new organization.
2) Revenues for intellectual property rights (IPR) related to products are included in Net sales instead of Other operating income. In 2006 SEK 2,038 million (2005 SEK 1,400 million) of Other operating income were reclassified.

In note C1, "Significant Accounting Policies", the definitions of the different contract types are disclosed.

C5 EXPENSES BY NATURE

	2007	2006	2005
Goods and services	**113,195**	108,033	86,630
Amortization and depreciation	**8,554**	7,244	6,073
Impairments, net of reversals	**1,435**	876	508
Employee remunerations	**44,771**	42,821	34,458
Interest expenses	**1,695**	1,789	2,402
Taxes	**8,594**	9,557	8,875
Expenses incurred	**178,244**	170,320	138,946
Less:			
Inventory changes[1)]	**802**	3,791	2,872
Additions to Capitalized development	**1,053**	1,353	1,174
Expenses charged to the Income Statement	**176,389**	165,176	134,900

1) The inventory changes are based on changes of inventory values prior to allowances (gross value).

The impairments, net of reversals, mainly relate to an increase of obsolescence allowances.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

C6 OTHER OPERATING INCOME AND EXPENSES

	2007	2006	2005
Gains on sales of intangible assets and PP&E	**78**	27	29
Losses on sales of intangible assets and PP&E[1]	**−104**	−158	−120
Gains on sales of investments and operations	**296**	3,038	205
Losses on sales of investments and operations	**−16**	−93	−149
Capital gains/losses, net	**254**	2,814	−35
Other operating revenues[2]	**1,480**	1,089	1,125
Total other operating income and expenses	**1,734**	3,903	1,090

1) The gains on sales of investments and operations for 2006 mainly relate to the sale of the Defense business in the third quarter.
2) Revenues for intellectual property rights (IPR) related to products are included in Net sales instead of Other operating income. In 2006, SEK 2,038 million (2005, SEK 1,400 million) of Other operating income were reclassified.

C7 FINANCIAL INCOME AND EXPENSES

	2007		2006	
	Financial income	Financial expenses	Financial income	Financial expenses
Contractual interest from financial assets	**2,293**		1,952	
Of which from financial assets at fair value through profit or loss	***1,094***		*1,190*	
Contractual interest from financial liabilities		**−1,543**		−1,416
Of which from financial liabilities at fair value through profit or loss		**—**		—
Net gain/loss on:				
Instruments at fair value through profit or loss[1]	**−181**	**−60**	−60	−366
Of which included in fair value hedge relationships		***−7***		*−414*
Available for sale	**—**	**—**	—	—
Loans and receivables	**−342**	**—**	—	−160
Liabilities at amortized cost	**—**	**11**	—	383
Other financial income and expenses	**8**	**−103**	62	−230
Total	**1,778**	**−1,695**	1,954	−1,789

1) Excluding net gain from operating assets and liabilities which was SEK 762 (1,748) million reported as Cost of Sales

IFRS 7 was implemented January 1, 2007. The breakdown of the comparison figures for 2005 as above are not available. Financial income and expense for 2005 was SEK 2,653 million and SEK –2,402 million respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

C8 TAXES

In summary, the Group tax expense for the year was SEK 8,594 (9,557) million or 28,0 percent (26,6) of the income after financial items.

INCOME TAXES RECOGNIZED IN THE INCOME STATEMENT

The following items are included in Taxes:

	2007	2006	2005
Current income taxes for the year	**−4,115**	−4,565	−3,635
Current income taxes related to prior years	**−294**	−169	138
Deferred tax income/expense (−)	**−2,227**	−3,582	−4,753
Share of taxes in joint ventures and associated companies	**−1,958**	−1,241	−625
Taxes	**−8,594**	−9,557	−8,875

RECONCILIATION OF ACTUAL INCOME TAX RATE TO THE SWEDISH INCOME TAX RATE:

	2007	2006	2005
Tax rate in Sweden	**−28.0%**	−28.0%	−28.0%
Effect of foreign tax rates	**0.2%**	−0.4%	−1.5%
Current income taxes related to prior years	**−1.0%**	−0.5%	0.4%
Recognition/remeasurement of tax losses related to prior years	**−0.7%**	1.2%	—
Recognition/remeasurement of deductible temporary differences related to prior years	**1.5%**	0.2%	1.1%
Tax effect of non-deductible expenses	**−2.6%**	−3.7%	−1.5%
Tax effect of non-taxable income	**2.8%**	4.5%	2.8%
Tax effect of changes in tax rates	**−0.2%**	0.1%	0.0%
Actual tax rate	**−28.0%**	−26.6%	−26.7%

CHANGE IN DEFERRED TAXES:

	2007	2006
Opening balance, net	**13,182**	18,128
Recognized in income statement	**−2,227**	−3,582
Recognized in equity	**−73**	−769
Acquisitions/disposals of subsidiaries	**−2,120**	−124
Translation differences	**129**	−471
Closing balance, net	**8,891**	13,182

Tax effects reported directly to equity amount to SEK −73 million, of which hedge accounting SEK 255 million and actuarial gains/losses on pensions SEK −328 million.

Deferred tax asset are amounts recognized in countries where we expect to be able to generate corresponding taxable income in the future to benefit from tax reductions.

The significant tax loss carryforwards are related to countries with long or indefinite periods of utilization, mainly Sweden and the US. Of the total deferred tax assets for tax loss carryforwards, SEK 5,219 million,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEK 2,911 million relate to Sweden with indefinite time of utilization. With our strong current financial position and profitability during 2007, we have been able to utilize part of our tax loss carryforwards during the year, and we are convinced that Ericsson will be able to generate sufficient income in the coming years to utilize also remaining parts.

Benefit from a previously unrecognized tax credit of a prior period that is used to reduce deferred tax expense amounted to SEK 465 million.

INVESTMENTS IN SUBSIDIARIES

Due to losses in certain subsidiary companies, the book value of certain investments in those subsidiaries are less than the tax value of these investments. Since deferred tax assets have been reported with respect also to losses in these companies, and due to the uncertainty as to which deductions can be realized in the future, no additional deferred tax assets are reported.

DEFERRED TAX BALANCES

Tax effects of temporary differences and unutilized tax loss carryforwards are attributable as shown in the table below:

TAX EFFECTS OF TEMPORARY DIFFERENCES AND UNUTILIZED TAX LOSS CARRYFORWARDS

	2007			2006		
	Deferred tax assets	Deferred tax liabilities	Net balance	Deferred tax assets	Deferred tax liabilities	Net balance
Intangible assets and property, plant and equipment	438	4,044		312	855	
Current assets	1,878	14		2,146	5	
Post–employment benefits	1,121	100		1,229	96	
Provisions	1,693	5		2,277	40	
Equity	708	97		1,036	352	
Other	3,647[1)]	1,553		2,197	1,423	
Loss carryforwards	5,219	—		6,756	—	
Deferred tax assets/liabilities	14,704	5,813		15,953	2,771	
Netting of assets/liabilities	−3,014	−3,014		−2,389	−2,389	
Net deferred tax balances	11,690	2,799	8,891	13,564	382	13,182

1) Refer mainly to R&D credits and intellectual property rights.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

TAX LOSS CARRYFORWARDS

Deferred tax assets regarding unutilized tax loss carryforwards are reported to the extent that realization of the related tax benefit through future taxable profits is probable also when considering the period during which these can be utilized, as described below.

At December 31, 2007, these unutilized tax loss carryforwards amounted to SEK 17,734 (23,137) million. The tax effect of these tax loss carryforwards are reported as an asset. The final years in which these loss carryforwards can be utilized are shown in the following table:

Year of expiration	Tax loss carryforwards	Tax effect
2008	29	8
2009	32	9
2010	8	1
2011	287	79
2012	152	33
2013 or later	17,226	5,089
Total	**17,734**	**5,219**

C9 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net income attributable to stockholders of the Parent Company by the average number of shares outstanding (total number of shares less treasury stock) during the year.

BASIC, EARNINGS PER SHARE

	2007	2006	2005
Net income attributable to stockholders of the Parent Company (SEK million)	**21,836**	26,251	24,315
Average number of shares outstanding, basic (millions)	**15,891**	15,871	15,843
Earnings per share, basic (SEK)	**1.37**	**1.65**	**1.53**

Diluted earnings per share are calculated by dividing net income attributable to stockholders of the Parent Company by the sum of the average number of ordinary shares outstanding and dilutive potential ordinary shares. potential ordinary shares are treated as dilutive when, and only when, this reduces earnings per share.

DILUTED, EARNINGS PER SHARE

	2007	2006	2005
Net income attributable to stockholders of the Parent Company (SEK million)	**21,836**	26,251	24,315
Average number of shares outstanding, basic (millions)	**15,891**	15,871	15,843
Dilutive effect for stock option plans[1]	**10**	17	25
Dilutive effect for stock purchase plans	**63**	55	39
Average number of shares outstanding, diluted (millions)	**15,964**	15,943	15,907
Earnings per share, diluted (SEK)	**1.37**	**1.65**	**1.53**

1) During 2007, Ericsson had outstanding stock option plans for which the exercise price exceeded the average market price. Therefore these stock option plans have not had a dilutive effect and have not been included in the dilution calculation. If in the future the average market price should increase to a level above the exercise price these outstanding stock option plans will be included in the dilution calculation.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

C10 INTANGIBLE ASSETS

	Capitalized development expenses					Intellectual property rights, brands and other intangible assets		
2007	To be marketed	Acquired costs for internal use	Internal costs, for internal use	Total	Goodwill	Licenses trademarks and similar rights	Patents and acquired research and development	Total
Accumulated acquisition costs								
Opening balance	12,388	1,602	1,070	**15,060**	**6,824**	5,317	13,479	**18,796**
Acquisitions/capitalization	989	38	26	**1,053**	—	178	63	**241**
Balances regarding divested/ acquired businesses	—	—	—	—	**16,917**	5,132[1]	6,495[1]	**11,627**
Sales/disposals	−899	—	—	**−899**	**−1**	−57	−1	**−58**
Translation difference	—	—	—	—	**−914**	−198	−278	**−476**
Closing balance	**12,478**	**1,640**	**1,096**	**15,214**	**22,826**	**10,372**	**19,758**	**30,130**
Accumulated amortization								
Opening balance	−6,439	−1,562	−1,042	**−9,043**	—	−1,180	−1,953	**−3,133**
Amortization	−2,371	—	—	**−2,371**	—	−913	−2,149	**−3,062**
Sales/disposals	899	—	—	**899**	—	41	—	**41**
Translation difference	—	—	—	—	—	−20	16	−4
Closing balance	**−7,911**	**−1,562**	**−1,042**	**−10,515**	—	**−2,072**	**−4,086**	**−6,158**
Accumulated impairment losses								
Opening balance	−958	−38	−26	**−1,022**	—	—	−14	**−14**
Impairment losses	−16	—	—	**−16**	—	—	—	—
Closing balance	**−974**	**−38**	**−26**	**−1,038**	—	—	**−14**	**−14**
Net carrying value	**3,593**	**40**	**28**	**3,661**	**22,826**	**8,300**	**15,658**	**23,958**

1) During 2007 Ericsson acquired Redback, Tandberg and LHS. The acquisitions consist of IPR, SEK 6.4 billion, brands and customer relationships, SEK 4.8 billion and goodwill, SEK 16 billion. The amortization period related to the intellectual property rights, brands and other intangible assets from Redback, Tandberg and LHS is between five and ten years.

The goodwill is allocated to the business segments Networks (SEK 14.3 billion), Professional Services (SEK 2.3 billion) and Multimedia (SEK 6.2 billion). To a great extent, these three segments serve our customers with one combined offering, resulting in similar risks for all segments. According to IFRS, a cash generating unit (CGU) defined for the purpose of goodwill impairment testing, may not be larger than a business segment. The three business segments have been defined as CGU:s for the purpose of goodwill impairment testing.

The estimates used for measuring the recoverable amounts for goodwill per cash−generating unit include assumptions mainly for the following key parameters:

- sales growth,
- development of operating income,
- development of cash flow, including working capital and capital expenditure requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company's main assumptions, approved by group management and each business segments' management, are based on assumptions which reasonably well correspond to available industry sources providing estimates of the number of mobile subscribers, internet users, broadband connections and TV/video devices and, as a consequence the network traffic development. The demand for multimedia solutions is as well driven by the opportunities for new types of service offerings enabled by IP technology and high–speed broadband.

The demand for professional services is also driven by an increasing business and technology complexity, paired with higher consumer demands on operators. Therefore, operators review their business models and look for vendor partners that can take on a broader responsibility.

The number of global mobile subscriptions is estimated to grow from 3.2 billion to more than 5 billion within five years, and mobile traffic volume to grow during the same period from 700 to 4,500 Petabytes yearly. Impairment testing is based on the premise that changes for the Company's main assumptions are in line with the estimated industry development for these assumptions, based on specific estimates for the first five years and with a reduction of nominal annual growth rate to an average GDP growth of 3 to 4 percent per year thereafter. The impairment test for goodwill has not resulted in any impairment.

A number of sensitivity tests have been made, for example the effect of lower annual growth rates. The effect of applying levels of profitability as estimated by leading analysts in the fourth quarter of 2007, based on an extension for the future of their 2–year forecasts, has also been applied for sensitivity analysis purposes. Also when applying these more conservative estimates, no goodwill impairment is indicated.

The market Capitalization of the Company as per year end 2007, well exceeded the value of net assets of the Company.

An after–tax discount rate of 13 percent has been applied for the discounting of projected after–tax cash flows.

The application of one rate is made due to that differences in risks between the CGU:s have been considered in the estimated cash flows.

In note C1—"Significant Accounting Policies", the accounting policies for goodwill impairment testing are further disclosed.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Capitalized development expenses				Goodwill	Intellectual property rights, brands and other intangible assets		
2006	To be marketed	Acquired costs for internal use	Internal costs, for internal use	Total		Licenses trademarks and similar rights	Patents and acquired research and development	Total
Accumulated acquisition costs								
Opening balance	11,983	1,638	1,094	**14,715**	**7,362**	1,065	1,373	**2,438**
Acquisitions/capitalization	1,353	—	—	**1,353**	**163**	792	363	**1,155**
Balances regarding divested/acquired businesses	—	—	—	—	—	3,711[1)]	11,937[1)]	**15,648**
Sales/disposals	–948	–36	–24	**–1,008**	—	–173	–188	**–361**
Translation difference	—	—	—	—	**–701**	–78	–6	**–84**
Closing balance	**12,388**	**1,602**	**1,070**	**15,060**	**6,824**	**5,317**	**13,479**	**18,796**
Accumulated amortization								
Opening balance	–5,192	–1,549	–1,033	**–7,774**	—	–882	–603	**–1,485**
Amortization	–2,195	–49	–33	**–2,277**	—	–452	–1,508	**–1,960**
Sales/disposals	948	36	24	**1,008**	—	110	155	**265**
Translation difference	—	—	—	—	—	44	3	**47**
Closing balance	**–6,439**	**–1,562**	**–1,042**	**–9,043**	—	**–1,180**	**–1,953**	**–3,133**
Accumulated impairment losses								
Opening balance	–716	–38	–26	**–780**	—	—	–14	**–14**
Impairment losses	–242	—	—	**–242**	—	—	—	—
Closing balance	**–958**	**–38**	**–26**	**–1,022**	—	—	**–14**	**–14**
Net carrying value	**4,991**	**2**	**2**	**4,995**	**6,824**	**4,137**	**11,512**	**15,649**

1) As per January 1, 2006, Ericsson acquired assets of Marconi telecommunications operations. The acquisition consists of IPR, SEK 11.7 billion, and brands and customer relationships, SEK 3.6 billion. The remaining amortization period related to the intellectual property rights acquired from Marconi is nine years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

C11 PROPERTY, PLANT AND EQUIPMENT

2007	Real estate	Machinery and other technical assets	Other equipment, tools and installations	Construction in process and advance payments	Total
Accumulated acquisition costs					
Opening balance	4,551	5,005	15,135	457	25,148
Additions	471	617	2,111	1,120	4,319
Balances regarding divested/acquired businesses	10	170	104	—	284
Sales/disposals	−200	−311	−1,795	−77	−2,383
Reclassifications	−186	135	864	−813	—
Translation difference	−35	81	253	−12	287
Closing balance	**4,611**	**5,697**	**16,672**	**675**	**27,655**
Accumulated depreciation					
Opening balance	−1,212	−3,679	−11,738	—	−16,629
Depreciation	−246	−573	−2,302	—	−3,121
Balances regarding divested businesses	4	7	17	—	28
Sales/disposals	14	294	1,759	—	2,067
Reclassifications	—	−8	8	—	—
Translation difference	−30	−54	−229	—	−313
Closing balance	**−1,470**	**−4,013**	**−12,485**	**—**	**−17,968**
Accumulated impairment losses, net					
Opening balance	−306	−154	−178	—	−638
Impairment losses	−84	—	−6	—	−90
Reversals of impairment losses	263	9	25	—	297
Sales/disposals	1	27	10	—	38
Translation difference	9	—	1	—	10
Closing balance	**−117**	**−118**	**−148**	**—**	**−383**
Net carrying value	**3,024**	**1,566**	**4,039**	**675**	**9,304**

Contractual commitments for the acquisition of property, plant and equipment as per December 31, 2007, amounted to SEK 176 (190) million. The reversal of impairment losses have been reported under Cost of sales.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

2006	Real estate	Machinery and other technical assets	Other equipment, tools and installations	Construction in process and advance payments	Total
Accumulated acquisition costs					
Opening balance	3,512	5,200	17,146	287	**26,145**
Additions	772	931	1,264	860	**3,827**
Balances regarding divested/acquired businesses	624	8	–337	11	**306**
Sales/disposals	–47	–1,036	–2,448	–45	**–3,576**
Reclassifications	21	59	552	–632	**—**
Translation difference	–331	–157	–1,042	–24	**–1,554**
Closing balance	**4,551**	**5,005**	**15,135**	**457**	**25,148**
Accumulated depreciation					
Opening balance	–1,119	–4,285	–13,106	—	**–18,510**
Depreciation	–206	–706	–2,095	—	**–3,007**
Balances regarding divested businesses	—	156	542	—	**698**
Sales/disposals	40	1,043	2,178	—	**3,261**
Reclassifications	28	2	–30	—	**—**
Translation difference	45	111	773	—	**929**
Closing balance	**–1,212**	**–3,679**	**–11,738**	**—**	**–16,629**
Accumulated impairment losses, net					
Opening balance	–359	–145	–165	—	**–669**
Impairment losses	—	–11	–50	—	**–61**
Reversals of impairment losses	—	—	31	—	**31**
Translation difference	53	2	6	—	**61**
Closing balance	**–306**	**–154**	**–178**	**—**	**–638**
Net carrying value	**3,033**	**1,172**	**3,219**	**457**	**7,881**

C12 FINANCIAL ASSETS, NON–CURRENT

EQUITY IN JOINT VENTURES AND ASSOCIATED COMPANIES

	Joint ventures		Associated companies		Total	
	2007	2006	**2007**	2006	**2007**	2006
Opening balance	**8,041**	5,038	**1,368**	1,275	**9,409**	6,313
Share in earnings	**7,108**	5,852	**124**	82	**7,232**	5,934
Taxes	**–1,957**	–1,237	**–1**	–4	**–1,958**	–1,241
Translation difference	**304**	–422	**55**	–9	**359**	–431
Change in hedge reserve	**4**	–33	**—**	—	**4**	–33
Pensions	**–2**	3	**—**	—	**–2**	3
Dividends	**–3,949**	–1,160	**–273**	–102	**–4,222**	–1,262
Capital contribution	**—**	—	**103**	201	**103**	201
Stock Purchase and Stock Option Plans	**—**	—	**–19**	—	**–19**	—
Reclassification	**—**	—	**—**	–8	**—**	–8
Disposals	**—**	—	**–3**	–67	**–3**	–67
Closing balance	**9,549**	8,041	**1,354**[1)]	1,368	**10,903**	9,409

1) Goodwill, net, amounts to SEK 19 million (SEK 18 million in 2006).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ERICSSON'S SHARE OF ASSETS, LIABILITIES AND INCOME IN JOINT VENTURE SONY ERICSSON MOBILE COMMUNICATIONS

Non–current assets	2,701
Current assets	22,714
Non–current liabilities	121
Current liabilities	15,745
Net assets	**9,549**
Net sales	**59,700**
Income after financial items	7,276
Income taxes	−1,957
Net income	**5,319**
Net income attributable to:	
Stockholders of the Parent Company	5,151
Minority interest	168
Assets pledged as collateral	—
Contingent liabilities	12

Both these companies apply IFRS in the reporting to Ericsson.

ERICSSON'S SHARE OF ASSETS, LIABILITIES AND INCOME IN ASSOCIATED COMPANY ERICSSON NIKOLA TESLA D.D. [1)]

Non–current assets	363
Current assets	728
Non–current liabilities	1
Current liabilities	263
Net assets	**827**
Net sales	**1,100**
Income after financial items	124
Income taxes	−1
Net income	**123**
Net income attributable to:	
Stockholders of the Parent Company	123
Minority interest	—
Assets pledged as collateral	5
Contingent liabilities	64

1) Ericsson's share is 49.07 percent.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

OTHER FINANCIAL ASSETS, NON–CURRENT

	Other investments in shares and participations		Customer financing, non–current		Derivatives hedging non–current liabilities with a positive value		Other financial assets, non–current	
	2007	2006	2007	2006	2007	2006	2007	2006
Accumulated acquisition costs								
Opening balance	**1,999**	2,336	**2,270**	2,372	**116**	716	**3,447**	3,199
Additions	**—**	82	**892**	1,760	**—**	—	**622[2]**	617
Business combinations	**—**	—	**—**	—	**—**	—	**166**	–84
Disposals/repayments/deductions	**—**	–286	**–1,940**	–1,755	**—**	—	**–245**	–149
Reclassifications	**—**	—	**—**	–35	**—**	—	**—**	—
Revaluation	**—**	—	**—**	—	**–20**	–600	**—**	—
Translation difference	**20**	–133	**–1**	–72	**—**	—	**102**	–136
Closing balance	**2,019**	1,999	**1,221**	2,270	**96**	116	**4,092**	3,447
Accumulated impairment losses/allowances								
Opening balance	**–1,278**	–1,531	**–349**	1,050	**—**	—	**–1,154**	–1,119
Impairment losses/allowance	**2**	–8	**41**	–84	**—**	—	**–58**	–81
Business combinations	**—**	—	**—**	—	**—**	—	**—**	—
Disposals/repayments/deductions	**—**	155	**98**	727	**—**	—	**—**	—
Reclassifications	**—**	—	**—**	31	**—**	—	**—**	—
Translation difference	**–5**	106	**1**	27	**—**	—	**–58**	46
Closing balance	**–1,281**	–1,278	**–209**	–349	**—**	—	**–1,270**	–1,154
Net carrying value	**738[1]**	721	**1,012**	1,921	**96**	116	**2,822**	2,293

1) Fair value per December 31, 2007, for listed shares was SEK 11 (6) million with a net carrying value of SEK 11 (6) million.
2) Additions include funded pension plans with net assets of SEK 447 (381) million. For further information, see Note C17, "Post–employment benefits".

C13 INVENTORIES

	2007	2006	2005
Raw materials, components and consumables	**7,161**	6,902	4,699
Manufacturing work in progress	**315**	213	139
Finished products and goods for resale	**5,338**	3,781	2,770
Contract work in progress	**10,338**	11,171	12,753
Less advances from customers	**–677**	–597	–1,153
Inventories, net	**22,475**	21,470	19,208

Contract work in progress includes amounts related to construction–type contracts as well as other contracts with ongoing work in progress.

Reported amounts are net of obsolescence allowances of SEK 2,752 (2,578) million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

MOVEMENTS IN OBSOLESCENCE ALLOWANCES

	2007	2006	2005
Opening balance	**2,578**	2,519	3,146
Additions	**1,276**	857	785
Utilized	**−1,114**	−6,931	−1,560
Translation difference	**17**	−81	148
Balances regarding acquired/ divested businesses	**−5**	−24	—
Closing balance	**2,752**	2,578	2,519

The cost of inventories recognized as an expense and included in Cost of sales was SEK 52,864 (52,615) million.

CONSTRUCTION–TYPE CONTRACTS IN PROGRESS

	2007	2006	2005
For construction–type contracts in progress:			
Aggregate amounts of costs incurred	**9,599**	12,255	23,244 1)
Aggregate amount of recognized profits (less recognized losses)	**2,007**	1,735	6,416 1)
Gross amount due from customers 1)	**733**	1,537	537
Gross amount due to customers 2)	**1,643**	785	4,118 1)

1) For all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceeds progress billings.
2) For all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

The aggregate amounts of costs incurred relate to all construction–type contracts that where not finalized as per December 31, 2007, and include all costs incurred since the start of these projects, including any costs incurred prior to January 1, 2007. Net sales for construction–type contracts for 2007 amounts to SEK 7,121 million, see note C4, "Net Sales".

C14 TRADE RECEIVABLES AND CUSTOMER FINANCING

	2007	2006
Trade receivables excluding associated companies and joint ventures	**60,669**	51,846
Allowances for impairment	**−1,351**	−1,372
Trade receivables, net	**59,318**	50,474
Trade receivables related to associated companies and joint ventures	**1,174**	596
Trade receivables, total	**60,492**	51,070
Customer finance credits	**3,649**	4,074
Allowances for impairment	**−275**	−418
Customer finance credits, net	**3,374**	3,656
Of which short term	**2,362**	1,735
Credit commitments for customer financing	**4,185**	6,795

Days sales outstanding were 102 (85) in December, 2007.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

MOVEMENTS IN ALLOWANCES FOR IMPAIRMENT

	Trade receivables		Customer finance credits	
	2007	2006	**2007**	2006
Opening balance	**1,372**	1,382	**418**	1,755
Additions	**564**	686	**49**	79
Utilized	**−554**	−139	**−43**	−284
Reversal of excess amounts	**−137**	−527	**−141**	−1,082
Reclassification	**56**	56	**—**	−5
Translation difference	**50**	−86	**−8**	−45
Closing balance	**1,351**	1,372	**275**	418

AGEING ANALYSIS AS PER DECEMBER 31, 2007

	Amount	Of which neither impaired nor past due	Of which impaired, not past due	Of which past due in the following time intervals: less than 90 days	Of which past due in the following time intervals: 90 days or more	Of which past due and impaired in the following time intervals: less than 90 days	Of which past due and impaired in the following time intervals: 90 days or more
Trade receivables excluding associated companies and joint ventures	60,669	52,560	—	3,723	1,577	773	2,036
Allowances for impairment of receivables	−1,351					−422	−929
Customer finance credits	3,649	2,476	305	410	293	1	164
Allowances for impairment of customer finance credits	−275		−110			−1	−164

AGEING ANALYSIS AS PER DECEMBER 31, 2006

	Amount	Of which neither impaired nor past due	Of which impaired, not past due	Of which past due in the following time intervals: less than 90 days	Of which past due in the following time intervals: 90 days or more	Of which past due and impaired in the following time intervals: less than 90 days	Of which past due and impaired in the following time intervals: 90 days or more
Trade receivables excluding associated companies and joint ventures	51,846	45,085	—	2,714	1,222	400	2,425
Allowances for impairment of receivables	−1,372					−397	−975
Customer finance credits	4,074	3,342	473	—	7	32	220
Allowances for impairment of customer finance credits	−418		−166			−32	−220

CREDIT RISK

Credit risk is divided into three categories: credit risk in trade receivables, customer finance risk and financial credit risk (see C20).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Credit risk in trade receivables

Credit risk in trade receivables is governed by a policy applicable for all Ericsson legal entities. The purpose of the policy is to:

- Avoid credit losses through establishing internal standard credit routines at all Ericsson legal entities.
- Ensure monitoring and risk mitigation of defaulting accounts, i.e. events of non–payment and/or delayed payments from customers.
- Ensure efficient credit management within the Group and thereby improve Days Sales Outstanding and Cash Flow.
- Ensure payment terms are commercially justifiable.
- Clarify escalation path and approval process for payment terms and customer credit limits.

The credit worthiness of all customers is regularly assessed and a credit limit is set. Through credit management system functionality, credit checks are performed every time a sales order or an invoice is generated in the source system based upon the credit risk set on the customer. Credit blocks appear if credit limit set on customer is exceeded or if over due receivables are higher than permitted levels. Release of block requires authorization.

Trade receivables amounted to SEK 60,669 (51,846) million as of December 31, 2007. Provisions for expected losses are regularly assessed and amounted to SEK 1,351 (1,372) million as of December 31, 2007. Ericsson's nominal credit losses have, however, historically been low. The amounts of trade receivables follow closely the distribution of Ericsson's sales and do not include any major concentrations of credit risk by customer or by geography.

Customer finance credit risk

All major customer finance commitments are subject to approval by the Finance Committee of the Board of Directors according to a credit approval policy.

Prior to the approval of new Customer Finance deals, an internal credit risk assessment is conducted in order to assess the credit rating (for political and commercial risk) of each transaction respectively. The credit risk analysis is made by using an assessment tool, whereby the political risk rating is identical to the rating used by all Export Credit Agencies within the OECD. The commercial risk is assessed by analyzing a large number of parameters, which may affect the level of the future commercial risk exposure. The output from the assessment tool for the credit rating is also a pricing of the risk, expressed as a risk margin per annum over funding cost. The reference pricing for political risk and commercial risk, on which the tool is based, are reviewed using information from Export Credit Agencies and prevailing pricing in the bank loan market for structured financed deals. The objective is the internally set risk margin shall reflect the assessed risk and that the pricing is as close as possible to the current market pricing.

Risk provisions related to Customer Finance risk exposures are only made upon events occurring after the financing arrangement has become effective, which in a significant way are expected to have an adverse impact on the borrower's ability and/or willingness to service the outstanding debt. These events can be political (normally outside the control of the borrower) or commercial e.g. a borrower's deteriorating creditworthiness.

As of December 31, 2007, Ericsson's total outstanding exposure related to customer finance credits was SEK 3,679 (4,109) million. As of that date, Ericsson also had unutilized credit commitments of SEK 4,185 (6,795) million. The outstanding customer loans and financial guarantees relate to infrastructure projects in

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

different geographic markets and to a large number of customers. As of December 31, 2007, there were a total of 75 (66) customer loans originated by or guaranteed by Ericsson. The five largest customer finance arrangements represented 48 (60) percent of the total credit exposure.

Security arrangements for customer credits normally include pledges of equipment, pledges of certain of the borrower's assets and pledges of shares in the operating company. Restructuring efforts for cases of troubled debt may lead to temporary holdings of equity interests.

The table below summarizes Ericsson's outstanding customer finance credits as of December 31, 2007 and 2006.

OUTSTANDING CUSTOMER FINANCE CREDITS

	2007	2006
On–balance sheet credits	3,649	4,074
Off–balance sheet credits	30	35
Total credits	**3,679**	4,109
Accrued interest	63	89
Less third–party risk coverage[1)]	–511	–50
Ericsson's risk exposure	**3,231**	4,148
On–balance sheet credits, net carrying value	3,374	3,778
Reclassifications[2)]	—	–122
On–balance sheet credits, net carrying value	3,374	3,656
Of which current	2,362	1,735
Credit commitments for customer financing	4,185	6,795

1) By "third–party risk cover" means that a financial payment guarantee has been issued by a bank, an Export Credit Agency or other financial institution covering the credit risk. It may also be a Credit risk transfer under a so called "sub participation arrangement" with a bank whereby the credit risk and the funding is taken care of by the bank for the part covered by the bank. A credit risk cover from a third party may also be issued by an insurance company.

2) Reclassification due to consolidation in accordance with SIC 12.

Of Ericsson's total outstanding customer finance credit exposure as of December 31, 2007, 47 (52) percent related to Central and Eastern Europe, Middle East & Africa, 23 (36) percent to Latin America, 14 (7) percent to Western Europe, 14 (4) percent to Asia Pacific and 2 (1) percent to North America.

The effect of risk provisions and reversals for customer financing affecting the income statement amounted to a net positive impact of SEK 92 million in 2007, compared to SEK 1,003 million in 2006. In 2007 and 2006, Ericsson incurred credit losses of SEK 43 million and SEK 284 million respectively.

IFRS 7 was implemented January 1, 2007. The breakdown of the comparison figures for 2005 as above are not available.